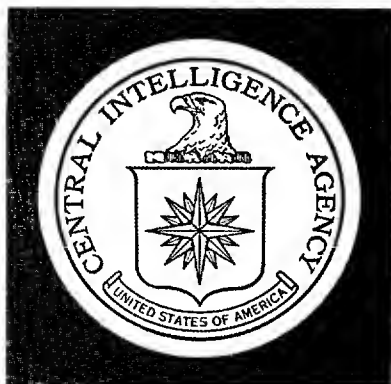


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Secret

50

11 December 1968

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No. 0336/68
11 December 1968

Central Intelligence Bulletin

CONTENTS

South Vietnam: Situation report. (Page 1)

USSR: Preliminary budget reports suggest a continuing rise in defense spending and a relatively low economic growth rate in 1969. (Page 2)

Brazil: The government is embroiled in serious disputes with the Catholic Church and the Congress. (Page 4)

India: The Congress Party's loss of Haryana State is a setback to its hopes for a strong comeback in state elections next February. (Page 7)

Dominican Republic: General Wessin remains bent on returning to the country. (page 8)

North Korea: New defense minister (Page 9)

SECRET

SECRET

South Vietnam: The tempo of Communist military activity increased sharply in III Corps on 9-10 December.

Eleven allied military positions in Binh Long, Tay Ninh, and Binh Duong provinces were shelled by nearly 400 rounds of mortar, rocket, and recoilless rifle fire. The majority of attacks were concentrated near An Loc, the capital of Binh Long Province, where heavy ground fighting between US and North Vietnamese troops was also reported.

Most of the allied positions which were under fire are astride known enemy infiltration routes to Saigon. The attacks may have been designed to mask the southward deployment of main force units from remote base areas and border sanctuaries.

Communist forces also appear to be showing renewed aggressiveness in the provinces south of Saigon. For the fifth time this month, battalion-sized Viet Cong units on 9-10 December offered stiff resistance to allied sweep operations against their base areas in the northern delta.

25X1

11 Dec 68

Central Intelligence Bulletin

1

SECRET

SECRET

USSR: Preliminary reports on the budget and economic plan for 1969 presented to the Supreme Soviet yesterday suggest a continuing rise in defense spending and a relatively low rate of growth for industrial production.

Finance Minister Garbuzov announced a record defense budget of 17.7 billion rubles, an increase of one billion rubles or six percent over this year. Outlays for science--largely funds for military research and development and for space programs--also are scheduled to rise by one billion rubles, or by about 13-14 percent, to a record high of almost nine billion rubles. Presently, analysis of Soviet defense and space activity based on all available evidence cannot account for an increase as large as announced, but in any event total defense and space spending for 1969 would still be at least the equivalent of about \$60 billion if measured in US costs.

Evidence on current deployment of Soviet strategic weapons indicates that there will probably be little net change in their costs in 1969 compared to 1968. Some programs--ICBMs for example--are nearing completion and will cost less next year. Others, such as the new missile submarine and some defensive systems, will cost more. Military research and development and space activity will probably increase above 1968 levels as the Soviets continue programs to improve their strategic systems qualitatively and pursue new space ventures.

Some of the rise also probably is related to such things as the cost of maintaining an occupation force in Czechoslovakia, the increased readiness of Soviet forces as a result of developments in Eastern Europe, the maintenance of the naval squadron in the Mediterranean, and the buildup of forces along the Chinese border.

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11 Dec 68

Central Intelligence Bulletin

2

SECRET

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To the extent that the defense spending figures publicized by Moscow carry a political message, Garbuzov appeared to be saying that the USSR was not committing itself to a new stage in the arms race. His nonbelligerent tone also suggests that Moscow wishes to indicate its interest in developing Soviet military strength without upsetting the prospects for strategic arms talks.

The goal for industrial output in 1969 calls for a rate of increase of 7.3 percent--one of the lowest in recent years. The attainment of this rate, however, would result in a moderate boost over the growth in 1968.

25X1

11 Dec 68

Central Intelligence Bulletin

3

SECRET

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Brazil: The Costa e Silva government, under continuing pressure from the military, is now embroiled in serious disputes with both the Catholic Church and the Brazilian Congress. As a result, the President may be forced to adopt a more authoritarian style of governing.

Liberal churchmen throughout Brazil are publicly defending three French clerics who, late last month, were arrested on charges of subversion. Leading church spokesmen have tried to cast doubt on the validity of the government's charges, and the powerful National Conference of Brazilian Bishops has demanded full, public treatment of the case and condemned any effort to deport the priests without trial.

The archbishop of the area where the priests worked has termed the accusations "absurd," and implied that the priests' position is akin to that of "persecuted early Christians." The head of the Assumptionist order in Brazil--to which the priests belong--has announced that the order will leave the country if its members cannot "preach the gospel."

For its part, the military has publicized some of the evidence, including handwritten notebooks denouncing capitalism and espousing violent revolution. The minister of justice has said that defense of public authority is legitimate no matter who committed a crime, and that "a cassock is not a protective mantle." The army's case may be strong, but in choosing to attack the church, the military and the government are inviting a public relations beating.

At the same time, there is intense military pressure to force Congress to agree to put on trial an opposition deputy who made a speech criticizing the government and the military. Last week the army minister issued a statement making clear the

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army's intention to have the deputy's "head," and implying that if Congress balked, other means would be found to punish him--and perhaps Congress.

These two issues, although not directly related, are bearing heavily on Costa e Silva. The President must retain his military backing, and if either Congress or the church continues its defiance, he will probably have to make some move to the right in order to satisfy the military that he has not gone soft on "subversion."

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11 Dec 68

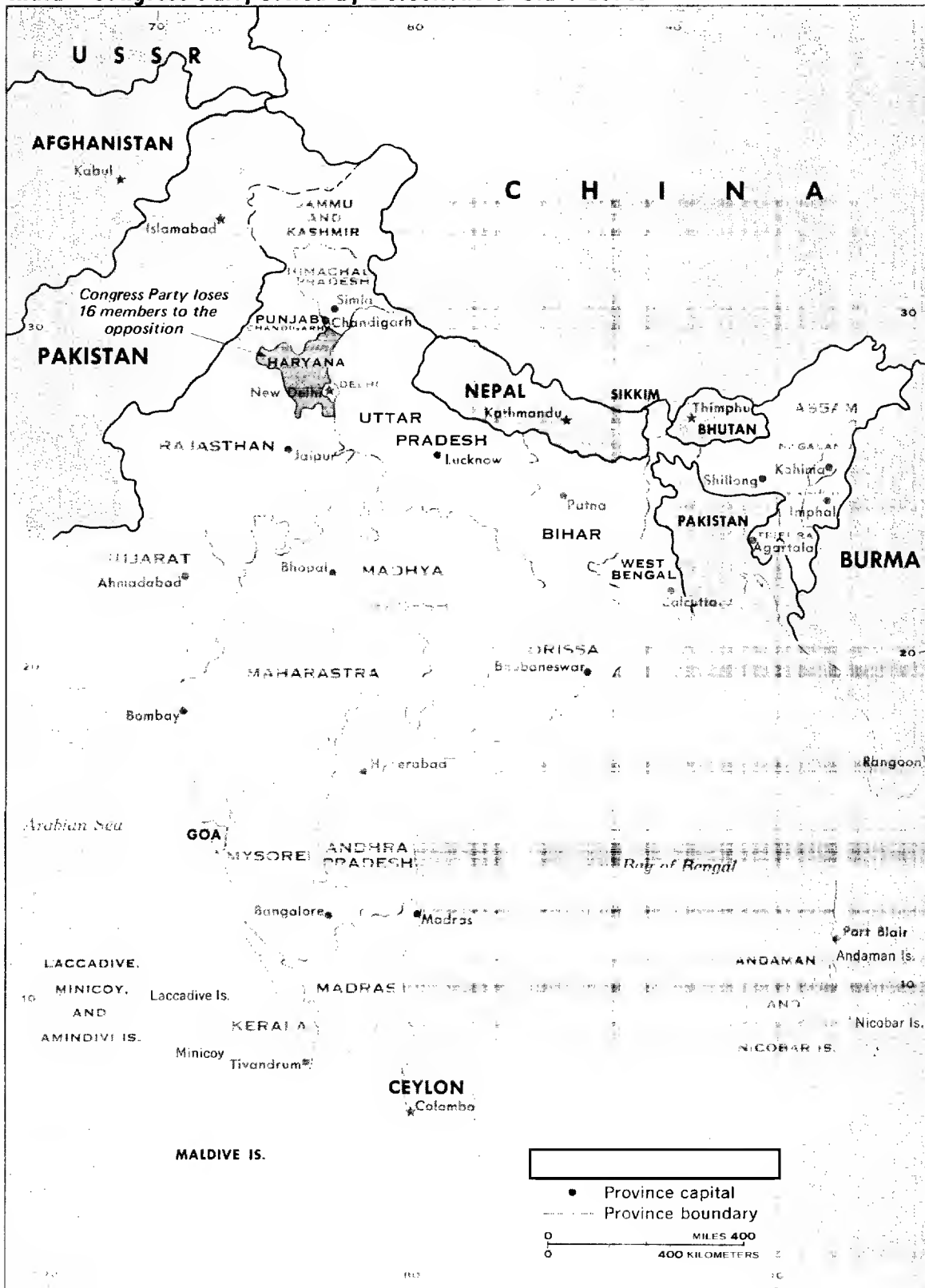
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5

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India - Congress Party Jolted by Defections at State Level



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India: The Congress Party's hopes for a strong comeback in elections to be held in February in those states now under direct rule from New Delhi have been dimmed. The party has apparently lost Haryana, the only state where Congress has been able to regain power since the 1967 election.

Sixteen of the 48 Congress Party members of the Haryana State assembly have quit the party to join an opposition group that now has enough strength to topple the Congress government when the assembly reconvenes. The opposition is demanding that the state governor immediately call on the leader of the defectors--a former Congress chief minister of the state--to form a new government. The governor may, however, delay his decision in order to give Congress more time to lure back some of the defectors, or he could even recommend dissolution of the assembly and the imposition of direct rule from New Delhi until new elections can be held.

Whatever the outcome in Haryana, the much-broadcast claim that "a vote for Congress is a vote for stability" will now have a hollow ring in the important north Indian states--West Bengal, Uttar Pradesh, Bihar, and the Punjab--where chronic instability under non-Congress governments has forced the suspension of representative government. Congress is now campaigning to regain power in these states in the elections scheduled for early February. Under similar circumstances, Congress staged an electoral comeback in Haryana last spring and had hoped that a stable government in the state would provide a favorable model of Congress Party rule.

The February elections, which will also include normal state assembly elections in Nagaland and will cover a population about equal to that of the US, will go far in determining the viability of constitutional provisions for governing the states. The election results, however, will hinge largely on local state politics rather than on national issues.

11 Dec 68

Central Intelligence Bulletin

7

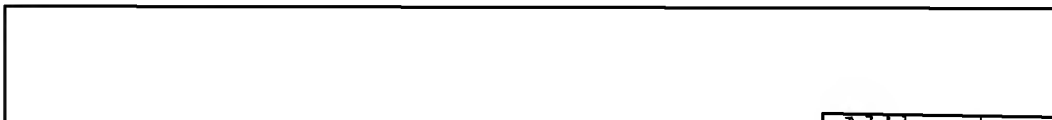
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Dominican Republic: Exiled General Wessin, who was a leader of the regular military during the 1965 revolt, remains intent on returning to the country and may attempt to evade President Balaguer's ban.

Some of Wessin's supporters are reportedly preparing to aid Wessin's return, illegally if necessary, and have asserted they would use "any means" to accomplish it.

25X1



Although Wessin would not pose an immediate danger to Balaguer, his return almost certainly would prove unsettling at a time when the political situation is somewhat strained, and there are unfounded rumors of coup plotting. 

25X1

11 Dec 68

Central Intelligence Bulletin

8

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North Korea: The appointment of a leading guerilla warfare specialist as minister of national defense is a further indication that Pyongyang intends to place greater emphasis on unconventional warfare operations in its campaign against the South. General Choe Hyon has had broad experience in unconventional warfare dating back to his days as a partisan against the Japanese. He has been chairman of the party's military affairs committee and commandant of the Military Liberation College, which trains agents for infiltration and guerrilla warfare. Choe ranks fifth in the party hierarchy and is one of the nine generals on the controlling party political committee, which has 13 full members. [REDACTED]

25X1

11 Dec 68

Central Intelligence Bulletin

9

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